



OFFICE OF ATTORNEY GENERAL
FOUR YEARS ENDED JUNE 30, 1999

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-53
June 28, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

June 2000

www.auditor.state.mo.us

The following findings were noted as a result of an audit conducted by our office of the Office of the Attorney General.

Formal written contracts are rarely prepared to document agreements for outside legal and other professional services, but instead the Attorney General's office generally uses an engagement letter to document such arrangements. However, twenty-two payments were noted totaling over \$199,000 for such services, which the Attorney General's office was unable to produce an engagement letter.

Eleven payments were noted which included charges which were either not addressed in the engagement letters or were not in accordance with the letters. In all of these instances, the rates billed for associates and paralegals were not included in the engagement letters, and in four instances, the rates billed for partners were higher than the rates quoted in the letters. While the Attorney General's Office has established billing policies and procedures for outside counsel in a billing policies and procedures manual, we noted many instances where supporting documentation was not in accordance with this manual.

Without written agreements, it is difficult to determine whether all charges billed are proper. In addition, written agreements are necessary to ensure all parties are aware of their duties and to clarify all compensation allowed.

According to staff of the Attorney General's office, outside legal counsel is hired when there is a conflict of interest for the office or when the case is very complex and requires specialized services. The Attorney General's office could not provide us with documentation regarding the reasons for hiring outside legal counsel for particular cases or the method of selecting these attorneys, including the case involving the tobacco litigation. There was no documentation to support how the lead attorney was selected to represent Missouri in this case.

Considering the extent of services obtained from outside legal counsel, it appears this information should be documented to support the propriety of the decision-making process.

Other items noted in the report included:

- The duties surrounding the establishment and handling of restitution amounts due are not adequately segregated and procedures for monitoring the collection of these receivables are not adequate.

(over)

YELLOW SHEET

- The Attorney General's Office does not require some employees to prepare monthly time sheets, and the timekeeping system is cumbersome and does not provide useful information. A written personnel policy has not been established and written job descriptions have not been created.
- The Attorney General's Office does not ensure the costs of commercial flights are compared to the costs of using state planes for out-of-state air travel.
- It was noted that some computer equipment purchased with federal funds for the Medicaid Fraud Control Unit was being used by employees in other sections. According to the federal program regulations, equipment purchased with funds pursuant to this program should not be used for any purpose other than investigating and prosecuting Medicaid fraud.
- The Attorney General's office has established several bank accounts outside the state treasury. It appears the monies deposited in some of these accounts are state funds and should be maintained by the State Treasurer's office. In addition, a formal written depository contract has not been entered into with the bank where the accounts are maintained.

OFFICE OF ATTORNEY GENERAL

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
State Auditor's Reports:	2-7
Financial Statements	3-5
Compliance and Internal Control over Financial Reporting	6-7
Financial Statements:	8-19
<u>Exhibit</u>	<u>Description</u>
	Combined Statement of Receipts, Disbursements, Transfers, and Changes in Cash and Investments -
A-1	Year Ended June 30, 1999 9
A-2	Year Ended June 30, 1998 10
A-3	Year Ended June 30, 1997 11
A-4	Year Ended June 30, 1996 12
B	Comparative Statement of Receipts, General Revenue Fund-State, Four Years Ended June 30, 1999 13
C	Comparative Statement of Appropriations and Expenditures, Four Years Ended June 30, 1999 14-19
Supplementary Data: 20-22	
<u>Schedule</u>	
1	Comparative Statement of Expenditures (From Appropriations), Four Years Ended June 30, 1999 21
2	Statement of Changes in General Fixed Assets, Four Years Ended June 30, 1999 22
Notes to the Financial Statements and Supplementary Data 23-32	
<u>MANAGEMENT ADVISORY REPORT SECTION</u>	
Management Advisory Report - State Auditor's Current Recommendations: 34-46	

OFFICE OF ATTORNEY GENERAL

TABLE OF CONTENTS

	<u>Page</u>
<u>MANAGEMENT ADVISORY REPORT SECTION</u>	
Summary of Findings	35
<u>Number</u>	<u>Description</u>
1.	Professional Services 36
2.	Accounts Receivable 39
3.	Personnel Records and Policies 41
4.	Plane Flights 42
5.	Fixed Assets 43
6.	Bank Accounts 45
Follow-up on State Auditor's Prior Recommendations	47-53
<u>STATISTICAL SECTION</u>	
History, Organization, and Statistical Information	55-58

FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS**

Honorable Jeremiah W. (Jay) Nixon, Attorney General
Jefferson City, Missouri 65102

We have audited the accompanying special-purpose financial statements of the various funds of the Office of Attorney General as of and for the years ended June 30, 1999, 1998, 1997, and 1996, as identified in the table of contents. These special-purpose financial statements are the responsibility of the office's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, transfers, and changes in cash and investments of the General Revenue Fund-Federal, Court Costs Fund, Antitrust Revolving Fund, Merchandising Practices Revolving Fund, Merchandising Practices Restitution Account, Tort Victims' Compensation Fund, Health Spa Regulatory Fund, Inmate Incarceration Reimbursement Act Revolving Fund, and Multi-State Consumer Fraud Accounts; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the Office of Attorney General and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the office.

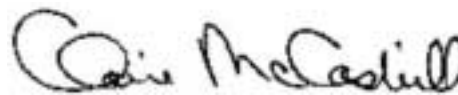
In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, transfers, and changes in cash and investments of the General Revenue Fund-Federal, Court Costs Fund, Antitrust Revolving Fund, Merchandising Practices Revolving Fund, Merchandising Practices Restitution Account, Tort Victims' Compensation Fund, Health Spa Regulatory Fund, Inmate Incarceration Reimbursement Act Revolving Fund, and Multi-State Consumer Fraud Accounts; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the Office of Attorney General as of and for the years ended June 30, 1999, 1998, 1997, and 1996, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 1, 1999, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.

An integral part of the office's funding comes from federal awards. Those federal awards are reported on in the State of Missouri Single Audit Report issued by the State Auditor's office. The single audit is conducted in accordance with the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



Claire McCaskill
State Auditor

October 1, 1999 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Gregory A. Slinkard, CPA, CIA
In-Charge Auditor:	Toni Crabtree, CPA
Audit Staff:	Tiffany Blew
	Rose Lamb
	Julie Vollmer



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Jeremiah W. (Jay) Nixon, Attorney General
Jefferson City, Missouri 65102

We have audited the special-purpose financial statements of the Office of Attorney General as of and for the years ended June 30, 1999, 1998, 1997, and 1996, and have issued our report thereon dated October 1, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

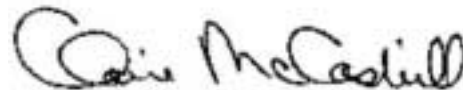
As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Office of Attorney General are free of material misstatement, we performed tests of the office's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of noncompliance which are presented in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Office of Attorney General, we considered the office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the office's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, and these matters are presented in the accompanying Management Advisory Report.

This report is intended for the information of the management of the Office of Attorney General and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

October 1, 1999 (fieldwork completion date)

Financial Statements

Exhibit A-1

OFFICE OF ATTORNEY GENERAL
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, TRANSFERS,
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 1999

									Inmate		
	General	Antitrust	Merchadis Practices	Merchadis Practices	Tort Victims'	Health Spa	Incarceration	Multi-State			
	Revenue	Court Cost: Revolving	Revolving	Restitution	Compensat	Regulatory	ct Revolvir	Consumer	Fraud	Total	(Memorandum
	Fund-Feder	Fund	Fund	Account	Fund	Fund	Fund	Accounts	Only		
RECEIPTS											
Federal grants	\$	613,600	0	0	0	0	0	0	0	613,600	
Restitution		0	0	0	0	1,720,638	0	0	0	1,720,638	
Inmate housing receipts		0	0	0	0	0	0	40,262	0	40,262	
Penalties and awards		0	19,310	0	730,505	0	2,555,773	0	24,962,333	28,267,921	
Registration fees		0	0	0	14,160	0	0	4,050	0	18,210	
Interest		0	0	0	0	17,457	0	0	75,622	93,079	
Miscellaneous		100	62	0	1,046	0	0	0	50,000	51,208	
Total Receipts		613,700	19,372	0	745,711	1,738,095	2,555,773	4,050	40,262	25,087,955	30,804,918
DISBURSEMENTS											
Personal service		419,368	0	131,904	201,113	0	0	0	19,500	0	771,885
Employee fringe benefits		109,054	0	33,714	59,459	0	0	0	5,499	0	207,726
Expense and equipment		83,532	148,147	202,437	323,216	0	0	0	10,192	631	768,155
Payments to other parties		0	0	0	0	273,526	0	0	23,528,961	23,802,487	
Total Disbursements		611,954	148,147	368,055	583,788	273,526	0	0	35,191	23,529,592	25,550,253
RECEIPTS OVER (UNDER) DISBURSEMENTS		1,746	-128,775	-368,055	161,923	1,464,569	2,555,773	4,050	5,071	1,558,363	5,254,665
TRANSFERS											
Transfers from:											
General Revenue Fund-State		0	130,000	125,000	0	0	0	0	0	0	255,000
Merchandising Practices Restitution Account		0	0	0	28,025	0	0	0	0	0	28,025
Transfers to:											
General Revenue Fund-State (Note 2)		0	-270	-20,970	-39,791	0	-770	-263	-2,641	0	-64,705
Merchandising Practices Revolving Fund		0	0	0	0	-28,025	0	0	0	0	-28,025
Total Transfers		0	129,730	104,030	-11,766	-28,025	-770	-263	-2,641	0	190,295
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS		1,746	955	-264,025	150,157	1,436,544	2,555,003	3,787	2,430	1,558,363	5,444,960
CASH AND INVESTMENTS, JULY 1, 1998 (Note 3)		0	9,456	763,779	2,288,426	117,457	4,873,135	66,089	128,957	0	8,247,299
CASH AND INVESTMENTS, JUNE 30, 1999 (Note 3)	\$	1,746	10,411	499,754	2,438,583	1,554,001	7,428,138	69,876	131,387	1,558,363	13,692,259

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

OFFICE OF ATTORNEY GENERAL
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, TRANSFERS,
AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1998

	General Revenue Fund-Federal	Court Costs Fund	Antitrust Revolving Fund	Merchandising Practices Revolving Fund	Merchandising Practices Restitution Account	Tort Victims' Compensation Fund	Health Spa Regulatory Fund	Inmate Incarceration Reimbursement Act Revolving Fund	Total (Memorandum Only)
RECEIPTS									
Federal grants	\$ 686,000	0	0	0	0	0	0	0	686,000
Restitution	0	0	0	0	256,949	0	0	0	256,949
Inmate housing receipts	0	0	0	0	0	0	0	55,129	55,129
Penalties and awards	0	9,525	50,000	777,656	0	4,816,845	0	0	5,654,026
Settlement fees	0	0	279,835	0	0	0	0	0	279,835
Registration fees	0	0	0	15,390	0	0	5,400	0	20,790
Interest	0	0	0	0	3,345	0	0	0	3,345
Miscellaneous	0	374	0	2,579	0	0	0	0	2,953
Total Receipts	686,000	9,899	329,835	795,625	260,294	4,816,845	5,400	55,129	6,959,027
DISBURSEMENTS									
Personal service	479,426	0	125,450	187,542	0	0	0	0	792,418
Employee fringe benefits	109,627	0	27,279	51,778	0	0	0	0	188,684
Expense and equipment	100,898	159,517	75,516	307,096	0	0	0	0	643,027
Payments to other parties	0	0	0	0	236,637	0	0	0	236,637
Total Disbursements	689,951	159,517	228,245	546,416	236,637	0	0	0	1,860,766
RECEIPTS OVER (UNDER) DISBURSEMENTS	-3,951	-149,618	101,590	249,209	23,657	4,816,845	5,400	55,129	5,098,261
TRANSFERS									
Transfers from:									
General Revenue Fund-State	0	140,000	125,000	0	0	0	0	0	265,000
Merchandising Practices Restitution Account	0	0	2,936	42,653	0	0	0	0	45,589
Transfers to:									
General Revenue Fund-State (Note 2)	0	-708	-4,753	-54,279	0	-540	-411	-617	-61,308
Antitrust Revolving Fund	0	0	0	0	-2,936	0	0	0	-2,936
Merchandising Practices Revolving Fund	0	0	0	0	-42,653	0	0	0	-42,653
Total Transfers	0	139,292	123,183	-11,626	-45,589	-540	-411	-617	203,692
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	-3,951	-10,326	224,773	237,583	-21,932	4,816,305	4,989	54,512	5,301,953
CASH AND INVESTMENTS, JULY 1, 1997 (Note 3)	3,951	19,782	539,006	2,050,843	139,389	56,830	61,100	74,445	2,945,346
CASH AND INVESTMENTS, JUNE 30, 1998 (Note 3)	\$ 0	9,456	763,779	2,288,426	117,457	4,873,135	66,089	128,957	8,247,299

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-3

OFFICE OF ATTORNEY GENERAL
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, TRANSFERS,
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 1997

												Inmate												
												Health	Incarcerat											
												Spa	Reimburs	Total										
												Practices	Victims'	Regulator	Act	Revol	(Memorandum							
												Revenue	Court	Cos	Revolving	Revolving	Restitutio	Account	Fund	Fund	Fund	Only)		
												Fund-Feds	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund		
RECEIPTS																								
Federal grants	\$	767000	0	0	0	0	0	0	0	0	0	0	0	767000										
Restitution		0	0	0	0	0	230421	0	0	0	0	0	0	230421										
Inmate housing receipts		0	0	0	0	0	0	0	0	0	0	0	57245	57245										
Penalties and awards		0	5820	0	840040	0	16689	0	0	0	0	0	862549											
Settlement fees		0	0	454528	0	0	0	0	0	0	0	0	454528											
Registration fees		0	0	0	12325	0	0	0	5700	0	0	0	18025											
Interest		0	0	0	0	0	7046	0	0	0	0	0	7046											
Miscellaneous		0	533	0	2833	0	0	0	0	0	0	0	3366											
Total Receipts		767000	6353	454528	855198	237467	16689	5700	57245	2400180														
DISBURSEMENTS																								
Personal service		598680	0	119305	178097	0	0	0	0	0	0	0	896082											
Employee fringe benefits		159218	0	25619	50776	0	0	0	0	0	0	0	235613											
Expense and equipment		70598	176015	14593	325991	0	0	0	0	0	0	0	587197											
Payments to other parties		0	0	0	0	472963	0	0	0	0	0	0	472963											
Total Disbursements		828496	176015	159517	554864	472963	0	0	0	0	0	0	2191855											
RECEIPTS OVER (UNDER) DISBURSEMENTS		-61496	-169662	295011	300334	-235496	16689	5700	57245	208325														
TRANSFERS																								
Transfers from:																								
General Revenue Fund-State		0	150000	125000	0	0	0	0	0	0	0	0	275000											
Merchandising Practices Restitution Acco		0	0	0	8372	0	0	0	0	0	0	0	8372											
Transfers to:																								
General Revenue Fund-State		0	-2319	0	0	0	0	0	0	0	0	0	-2319											
Merchandising Practices Revolving Fund		0	0	0	0	-8372	0	0	0	0	0	0	-8372											
Total Transfers		0	147681	125000	8372	-8372	0	0	0	0	0	0	272681											
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS																								
CASH AND INVESTMENTS, JULY 1, 1996 (Note 3)		65447	41763	118995	1742137	383257	40141	55400	17200	2464340														
CASH AND INVESTMENTS, JUNE 30, 1997 (Note : \$		3951	19782	539006	2050843	139389	56830	61100	74445	2945346														

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF ATTORNEY GENERAL
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, TRANSFERS,
 AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 1996

	General		Antitrust	Merchandising	Merchandising	Tort	Health	Inmate		
	Revenue	Court Costs	Revolving	Revolving	Practices	Practices	Spa	Incarceration	Reimbursement	Total
	Fund-Federal	Fund	Fund	Fund	Account	Victims'	Compensation	Regulatory	Act Revolving	(Memorandum
						Fund	Fund	Fund	Fund	Only)
RECEIPTS										
Federal grants	\$ 930,000	0	0	0	0	0	0	0	0	930,000
Restitution	0	0	0	0	707,521	0	0	0	0	707,521
Inmate housing receipts	0	0	0	0	0	0	0	0	17,200	17,200
Penalties and awards	0	19,404	0	1,102,592	0	9,565	0	0	0	1,131,561
Settlement fees	0	0	104,975	0	0	0	0	0	0	104,975
Registration fees	0	0	0	12,175	0	0	5,800	0	0	17,975
Interest	0	0	0	0	7,905	0	0	0	0	7,905
Miscellaneous	37,618	1,247	0	1,884	0	0	0	0	0	40,749
Total Receipts	967,618	20,651	104,975	1,116,651	715,426	9,565	5,800	17,200	2,957,886	
DISBURSEMENTS										
Personal service	622,060	0	109,804	168,016	0	0	0	0	0	899,880
Employee fringe benefits	147,026	0	26,812	48,326	0	0	0	0	0	222,164
Expense and equipment	144,334	128,888	13,585	303,199	0	0	0	0	0	590,006
Payments to other parties	0	0	0	0	369,223	0	0	0	0	369,223
Total Disbursements	913,420	128,888	150,201	519,541	369,223	0	0	0	2,081,273	
RECEIPTS OVER (UNDER) DISBURSEMENTS	54,198	-108,237	-45,226	597,110	346,203	9,565	5,800	17,200	876,613	
TRANSFERS										
Transfers from:										
General Revenue Fund-State	0	150,000	125,000	0	0	0	0	0	0	275,000
Merchandising Practices Restitution Account	0	0	0	12,133	0	0	0	0	0	12,133
Transfers to:										
Merchandising Practices Revolving Fund	0	0	0	0	-12,133	0	0	0	0	-12,133
Total Transfers	0	150,000	125,000	12,133	-12,133	0	0	0	275,000	
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	54,198	41,763	79,774	609,243	334,070	9,565	5,800	17,200	1,151,613	
CASH AND INVESTMENTS, JULY 1, 1995 (Note 3)	11,249	0	39,221	1,132,894	49,187	30,576	49,600	0	1,312,727	
CASH AND INVESTMENTS, JUNE 30, 1996 (Note : \$	65,447	41,763	118,995	1,742,137	383,257	40,141	55,400	17,200	2,464,340	

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

OFFICE OF ATTORNEY GENERAL
COMPARATIVE STATEMENT OF RECEIPTS
GENERAL REVENUE FUND - STATE

		Year Ended June 30,			
		1999	1998	1997	1996
Penalties and court awards	\$	10,952	304,910	26,102	16,393
Recoveries		6,089	8,114	1,979	23,214
Refunds		3,453	1,518	2,604	18,097
Miscellaneous		5,151	130	6,623	3,160
Total	\$	25,645	314,672	37,308	60,864

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

OFFICE OF ATTORNEY GENERAL
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

		Year Ended June 30,					
		1999			1998		
		Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE							
Personal Service	\$	8,960,398	8,698,167	262,231	8,456,748	7,851,341	605,407
Medicaid Fraud Unit - Expense and Equipment		149,113	127,857	21,256	149,113	142,215	6,898
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment		209,840	194,976	14,864	209,840	171,974	37,866
Medicaid Fraud Unit - Personal Service		175,830	170,555	5,275	167,143	167,143	0
Legal and travel expenses related to desegregation cases - Personal Service		145,574	100,986	44,588	68,069	68,069	0
Legal and travel expenses related to desegregation cases - Expense and Equipment		240,893	36,566	204,327	311,351	67,836	243,515
Expenses related to Americans with Disabilities Act cases - Personal Service		51,864	51,019	845	49,309	47,830	1,479
Expenses related to Americans with Disabilities Act cases - Expense and Equipment		31,360	22,869	8,491	31,360	17,082	14,278
Expense and Equipment		2,298,263	2,298,263	0	2,215,363	2,192,402	22,961
Participation by the State of Missouri in the National Association of Attorneys General - Expense and Equipment		34,080	34,080	0	34,080	34,080	0
Total General Revenue Fund - State		12,297,215	11,735,338	561,877	11,692,376	10,759,972	932,404
GENERAL REVENUE FUND - FEDERAL							
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment		89,700	56,910	32,790	89,700	51,545	38,155
Medicaid Fraud Unit - Personal Service		634,686	375,387	259,299	603,464	417,807	185,657
Medicaid Fraud Unit - Expense and Equipment		809,711	22,440	787,271	809,711	52,216	757,495
Personal Service		330,542	43,980	286,562	314,434	61,619	252,815
Expense and Equipment		485,170	0	485,170	485,170	871	484,299
Total General Revenue Fund - Federal		2,349,809	498,717	1,851,092	2,302,479	584,058	1,718,421
GAMING COMMISSION FUND							
Personal Service		86,382	72,383	13,999	82,126	58,329	23,797
Expense and Equipment		30,747	8,324	22,423	30,747	11,465	19,282
Total Gaming Commission Fund		117,129	80,707	36,422	112,873	69,794	43,079
NATURAL RESOURCES PROTECTION FUND - WATER POLLUTION PERMIT FEE SUBACCOUNT							
Personal Service		29,100	29,100	0	27,670	27,670	0
Expense and Equipment		4,715	4,715	0	4,715	4,715	0
Total Natural Resources Protection Fund - Water Pollution Permit Fee Subaccount		33,815	33,815	0	32,385	32,385	0
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND							
Personal Service		29,103	29,103	0	27,673	27,673	0
Expense and Equipment		5,215	5,215	0	5,215	5,215	0
Total Solid Waste Management Special Revenue Fund		34,318	34,318	0	32,888	32,888	0
PETROLEUM STORAGE TANK INSURANCE FUND							
Personal Service		20,000	19,950	50	0	0	0
Total Petroleum Storage Tank Insurance Fund		20,000	19,950	50	0	0	0
MOTOR VEHICLE COMMISSION FUND							
Personal Service		30,226	0	30,226	28,730	28,730	0
Expense and Equipment		11,300	0	11,300	11,300	1,951	9,349
Total Motor Vehicle Commission Fund		41,526	0	41,526	40,030	30,681	9,349
HEALTH SPA REGULATORY FUND							
Expense and Equipment		5,000	1,725	3,275	5,000	0	5,000
Total Health Spa Regulatory Fund		5,000	1,725	3,275	5,000	0	5,000
NATURAL RESOURCES PROTECTION FUND - AIR POLLUTION PERMIT FEE SUBACCOUNT							
Personal Service		29,098	29,098	0	27,669	27,669	0
Expense and Equipment		4,715	4,715	0	4,715	4,715	0
Total Natural Resources Protection Fund - Air Pollution Permit Fee Subaccount		33,813	33,813	0	32,384	32,384	0
COURT COSTS FUND							
Expense and Equipment		187,000	141,568	45,432	187,000	160,545	26,455

Total Court Costs Fund	187,000	141,568	45,432	187,000	160,545	26,455
SOIL AND WATER SALES TAX FUND						
Personal Service	9,700	9,700	0	9,224	9,224	0
Expense and Equipment	2,267	2,267	0	2,267	2,267	0
Total Soil and Water Sales						
Tax Fund	11,967	11,967	0	11,491	11,491	0
MERCHANDISING PRACTICES						
REVOLVING FUND						
Personal Service	197,459	197,459	0	187,542	187,542	0
Expense and Equipment	220,780	220,780	0	220,780	220,780	0
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	104,220	104,220	0	104,220	83,558	20,662
Total Merchandising Practices						
Revolving Fund	522,459	522,459	0	512,542	491,880	20,662
WORKERS' COMPENSATION FUND						
Personal Service	207,768	183,315	24,453	197,502	59,955	137,547
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	91,719	91,719	0	91,719	87,168	4,551
Expense and Equipment	225,121	38,599	186,522	225,121	18,825	206,296
Total Workers' Compensation Fund	524,608	313,633	210,975	514,342	165,948	348,394
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WORKERS' COMPENSATION - SECOND						
INJURY FUND						
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	84,348	84,348	0	84,348	84,348	0
Personal Service	1,242,095	1,217,764	24,331	1,180,662	1,155,582	25,080
Expense and Equipment	436,832	333,721	103,111	436,832	259,378	177,454
Total Workers' Compensation - Second Injury Fund	1,763,275	1,635,833	127,442	1,701,842	1,499,308	202,534
LOTTERY ENTERPRISE FUND						
Personal Service	44,223	23,250	20,973	42,060	17,905	24,155
Total Lottery Enterprise Fund	44,223	23,250	20,973	42,060	17,905	24,155
ANTITRUST REVOLVING FUND						
Personal Service	131,903	131,903	0	125,450	125,450	0
Expense and Equipment	200,000	169,197	30,803	200,000	146,160	53,840
Total Antitrust Revolving Fund	331,903	301,100	30,803	325,450	271,610	53,840
HAZARDOUS WASTE FUND						
Personal Service	29,098	29,098	0	27,669	27,669	0
Expense and Equipment	4,715	4,715	0	4,715	4,715	0
Total Hazardous Waste Fund	33,813	33,813	0	32,384	32,384	0
SAFE DRINKING WATER FUND						
Personal Service	9,702	9,702	0	9,225	9,225	0
Expense and Equipment	2,265	2,265	0	2,265	2,265	0
Total Safe Drinking Water Fund	11,967	11,967	0	11,490	11,490	0
HAZARDOUS WASTE REMEDIAL FUND						
Personal Service	198,117	198,117	0	188,439	188,439	0
Expense and Equipment	10,165	10,165	0	10,165	10,165	0
Total Hazardous Waste Remedial Fund	208,282	208,282	0	198,604	198,604	0
INMATE INCARCERATION REIMBURSEMENT						
ACT REVOLVING FUND						
Expense and Equipment	20,675	10,192	10,483	0	0	0
Personal Service	19,500	19,500	0	0	0	0
Total Inmate Incarceration Reimbursement Act						
Revolving Fund	40,175	29,692	10,483	0	0	0
MINED LAND RECLAMATION FUND						
Personal Service	9,700	9,700	0	9,224	9,224	0
Expense and Equipment	2,262	2,262	0	2,262	2,262	0
Total Mined Land Reclamation Fund	11,962	11,962	0	11,486	11,486	0
Total All Funds	\$ 18,624,259	15,683,909	2,940,350	17,799,106	14,414,813	3,384,293

The accompanying Notes to the Financial Statements are an integral part of this statement.

1997			1996		
Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
8,079,389	7,483,102	596,287	7,575,708	7,295,718	279,990
84,727	84,727	0	171,307	120,147	51,160
376,064	247,911	128,153	372,401	265,959	106,442
0	0	0	8,186	1,276	6,910
0	0	0	229,732	229,732	0
209,840	167,777	42,063	0	0	0
91,775	91,775	0	0	0	0
2,229,297	1,934,705	294,592	2,227,145	2,163,314	63,831
34,080	34,080	0	34,080	34,080	0
11,105,172	10,044,077	1,061,095	10,618,559	10,110,226	508,333
0	0	0	691,132	568,516	122,616
0	0	0	282,283	53,543	228,740
0	0	0	485,170	60,595	424,575
0	0	0	89,700	41,550	48,150
89,700	45,065	44,635	0	0	0
784,422	85,859	698,563	0	0	0
1,514,919	538,523	976,396	0	0	0
0	0	0	787,517	42,671	744,846
2,389,041	669,447	1,719,594	2,335,802	766,875	1,568,927
78,072	53,509	24,563	31,200	31,200	0
37,570	7,734	29,836	0	0	0
115,642	61,243	54,399	31,200	31,200	0
26,309	26,309	0	24,820	24,820	0
4,715	4,715	0	4,715	4,715	0
31,024	31,024	0	29,535	29,535	0
26,312	26,312	0	24,823	24,823	0
5,215	5,215	0	5,215	5,215	0
31,527	31,527	0	30,038	30,038	0
27,305	26,391	914	25,759	25,759	0
11,300	0	11,300	11,300	48	11,252
38,605	26,391	12,214	37,059	25,807	11,252
5,000	0	5,000	5,000	0	5,000
5,000	0	5,000	5,000	0	5,000
26,309	26,309	0	24,820	24,820	0
4,715	4,715	0	4,715	4,715	0
31,024	31,024	0	29,535	29,535	0
187,000	177,296	9,704	187,000	144,935	42,065
187,000	177,296	9,704	187,000	144,935	42,065
8,770	8,770	0	8,274	8,274	0

Expense and Equipment	2,267	2,267	0	2,267	2,267	0
Total Soil and Water Sales						
Tax Fund	<u>11,037</u>	<u>11,037</u>	<u>0</u>	<u>10,541</u>	<u>10,541</u>	<u>0</u>
MERCHANDISING PRACTICES						
REVOLVING FUND						
Personal Service	178,097	178,097	0	168,016	168,016	0
Expense and Equipment	220,780	220,780	0	230,188	230,188	0
Payment of real property leases and related services and utilities - Expense and Equipment	0	0	0	94,812	94,812	0
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	104,220	84,599	19,621	0	0	0
Total Merchandising Practices						
Revolving Fund	<u>503,097</u>	<u>483,476</u>	<u>19,621</u>	<u>493,016</u>	<u>493,016</u>	<u>0</u>
WORKERS' COMPENSATION FUND						
Personal Service	187,726	54,857	132,869	177,100	99,041	78,059
Payment of real property leases and related services and utilities - Expense and Equipment	0	0	0	91,719	71,789	19,930
Payment of real property leases and related services and utilities - Expense and Equipment	91,719	85,879	5,840	0	0	0
Expense and Equipment	225,121	16,911	208,210	265,511	33,494	232,017
Total Workers' Compensation Fund	<u>504,566</u>	<u>157,647</u>	<u>346,919</u>	<u>534,330</u>	<u>204,324</u>	<u>330,006</u>
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WORKERS' COMPENSATION - SECOND						
INJURY FUND						
Expense and Equipment	0	0	0	451,061	220,222	230,839
Personal Service	0	0	0	1,058,633	1,018,178	40,455
Payment of real property leases and related services and utilities - Expense and Equipment	0	0	0	70,119	70,119	0
Payment of real property leases and related services and utilities - Expense and Equipment	84,348	84,348	0	0	0	0
Personal Service and/or Expense and Equipment	1,558,986	1,350,247	208,739	0	0	0
Total Workers' Compensation - Second Injury Fund	<u>1,643,334</u>	<u>1,434,595</u>	<u>208,739</u>	<u>1,579,813</u>	<u>1,308,519</u>	<u>271,294</u>
LOTTERY ENTERPRISE FUND						
Personal Service	40,000	13,333	26,667	0	0	0
Total Lottery Enterprise Fund	<u>40,000</u>	<u>13,333</u>	<u>26,667</u>	<u>0</u>	<u>0</u>	<u>0</u>
ANTITRUST REVOLVING FUND						
Personal Service	119,305	119,305	0	112,551	109,804	2,747
Expense and Equipment	200,000	14,593	185,407	200,000	13,585	186,415
Total Antitrust Revolving Fund	<u>319,305</u>	<u>133,898</u>	<u>185,407</u>	<u>312,551</u>	<u>123,389</u>	<u>189,162</u>
HAZARDOUS WASTE FUND						
Personal Service	26,309	26,309	0	24,820	24,820	0
Expense and Equipment	4,715	4,715	0	4,715	4,715	0
Total Hazardous Waste Fund	<u>31,024</u>	<u>31,024</u>	<u>0</u>	<u>29,535</u>	<u>29,535</u>	<u>0</u>
SAFE DRINKING WATER FUND						
Personal Service	8,770	8,770	0	8,274	8,274	0
Expense and Equipment	2,265	2,265	0	2,265	2,265	0
Total Safe Drinking Water Fund	<u>11,035</u>	<u>11,035</u>	<u>0</u>	<u>10,539</u>	<u>10,539</u>	<u>0</u>
HAZARDOUS WASTE REMEDIAL FUND						
Personal Service	179,222	179,222	0	169,076	169,076	0
Expense and Equipment	10,165	10,165	0	10,165	10,165	0
Total Hazardous Waste Remedial Fund	<u>189,387</u>	<u>189,387</u>	<u>0</u>	<u>179,241</u>	<u>179,241</u>	<u>0</u>
ADA COMPLIANCE FUND						
Expenses related to Americans with Disabilities Act cases - Personal Service	46,889	46,030	859	44,233	43,454	779
Expenses related to Americans with Disabilities Act cases - Expense and Equipment	31,360	15,223	16,137	31,360	22,710	8,650
Total ADA Compliance Fund	<u>78,249</u>	<u>61,253</u>	<u>16,996</u>	<u>75,593</u>	<u>66,164</u>	<u>9,429</u>
MINED LAND RECLAMATION FUND						
Personal Service	8,770	8,770	0	8,274	8,274	0
Expense and Equipment	2,262	2,262	0	2,262	2,262	0
Total Mined Land Reclamation Fund	<u>11,032</u>	<u>11,032</u>	<u>0</u>	<u>10,536</u>	<u>10,536</u>	<u>0</u>
Total All Funds	<u>\$ 17,276,101</u>	<u>13,609,746</u>	<u>3,666,355</u>	<u>16,539,423</u>	<u>13,603,955</u>	<u>2,935,468</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Supplementary Data

Schedule 1

OFFICE OF ATTORNEY GENERAL
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,			
	1999	1998	1997	1996
Personal service	\$ 11,649,237	10,574,096	10,188,759	9,825,893
Travel and vehicle expense	662,506	673,614	579,719	585,138
Vehicle purchases	101,688	43,023	40,941	67,002
Office expense	943,640	905,927	898,506	631,164
Office and communication equipment purchases	253,789	71,354	163,611	228,902
Communication expense	490,695	438,717	438,170	433,264
Institution and physical plant expense and equipment	605,527	525,073	578,210	667,198
Data processing expense and equipment	393,689	482,256	140,381	571,239
Professional services	330,608	495,149	385,531	314,483
Professional development	85,740	58,713	52,125	63,372
Memberships	84,170	85,004	69,610	76,892
Other	82,620	61,887	74,183	139,408
Totals	\$ 15,683,909	14,414,813	13,609,746	13,603,955

The accompanying Note to the Supplementary Data is an integral part of this statement.

Schedule 2

OFFICE OF ATTORNEY GENERAL
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS (Note 6)

All Funds	Furniture and Equipment	Motor Vehicles	Total
Balance July 1, 1995	\$ 4,366,171	388,914	4,755,085
Additions	408,965	67,002	475,967
Dispositions	501,484	54,267	555,751
Balance June 30, 1996	4,273,652	401,649	4,675,301
Additions	181,268	40,941	222,209
Dispositions	552,516	38,828	591,344
Balance June 30, 1997	3,902,404	403,762	4,306,166
Additions	533,959	43,023	576,982
Dispositions	574,919	42,553	617,472
Balance June 30, 1998	3,861,444	404,232	4,265,676
Additions	502,629	101,688	604,317
Dispositions	387,596	50,847	438,443
Balance June 30, 1999	\$ 3,976,477	455,073	4,431,550

Fund of Acquisition	Balance June 30, 1999
General Revenue Fund-State	\$ 3,124,916
General Revenue Fund-Federal	220,858
Gaming Commission Fund	9,072
Motor Vehicle Commission Fund	5,947
Merchandising Practices Revolving Fund	208,587
Workers' Compensation Fund	234,800
Workers' Compensation- Second Injury Fund	556,703
Antitrust Revolving Fund	39,252
Department of Natural Resources Funds	29,690
Health Spa Regulatory Fund	1,725
Total All Funds	\$ 4,431,550

The accompanying Note to the Supplementary Data is an integral part of this statement.

Notes to the Financial Statements and Supplementary Data

OFFICE OF ATTORNEY GENERAL
NOTES TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Office of Attorney General.

Receipts, disbursements, transfers, and changes in cash and investments are presented in Exhibit A for the General Revenue Fund-Federal, Court Costs Fund, Antitrust Revolving Fund, Merchandising Practices Revolving Fund, Merchandising Practices Restitution Account, Tort Victims' Compensation Fund, Health Spa Regulatory Fund, Inmate Incarceration Reimbursement Act Revolving Fund, and Multi-State Consumer Fraud Accounts. Except for the Merchandising Practices Restitution Account and Multi-State Consumer Fraud Accounts, appropriations from these funds are expended by or for the office for restricted purposes. Appropriations are not made from the Merchandising Practices Restitution Account and Multi-State Consumer Fraud Accounts. These accounts are controlled entirely by the office and are expended by or for the office for restricted purposes.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund-State. Receipts include monies the office collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the office's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the office and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, Transfers, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statements of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The office administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly, except for the Merchandising Practices Restitution Account and Multi-State Consumer Fraud Accounts, which are controlled entirely by the office.

General Revenue Fund-Federal: The office administers a program financed partially by federal monies which are maintained in the state treasury in the Office of Attorney General's Federal Account. These federal funds may be received in advance, at the time related expenditures are made, or as reimbursements. Appropriations from this fund authorize the disbursement of the office's federal funds.

Court Costs Fund: This fund was established by Section 27.080, RSMo 1994, for the receipt of deposits and the payment of court costs incurred in any litigation in which it is the duty of the office to defend, prosecute, or appear. The fund consists of monies transferred by the General Assembly from the state's General Revenue Fund and refunds of any deposits or court costs. Expenditures are authorized by appropriation and balances remaining in the fund are perpetually maintained for the purpose of the fund.

Antitrust Revolving Fund: This fund was established by Section 416.081, RSMo 1994, to pay costs incurred by the office in the investigation, prosecution, and enforcement of state and federal antitrust related laws. Transfers made by the General Assembly from the state's General Revenue Fund, 10 percent of any settlements, and all court costs recovered pursuant to litigation are deposited into this fund. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Merchandising Practices Revolving Fund: This fund was established by Section 407.140, RSMo 1994, to pay costs incurred by the office in the investigation, prosecution, and enforcement of state merchandising practices laws, and to provide funds for consumer education and advocacy programs. Transfers made by the General Assembly from the state's General Revenue Fund, 10 percent of any court-ordered restitution, court costs recovered, and any unclaimed restitutions, are deposited into this fund. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Merchandising Practices Restitution Account: This bank account was established by the office to receive any restitution awarded by the courts for violation of state merchandising practices laws. Payments from the account provide restitution to parties who can present proof they were affected by the violations. Restitutions remaining unclaimed are transferred to the Merchandising Practices Revolving Fund.

Tort Victims' Compensation Fund: This fund was established by Section 537.675, RSMo 1994. Monies deposited into this fund represent 50 percent of any final judgement awarding punitive damages, after the deduction of attorney's fees and expenses. No disbursements may be made from the fund until procedures for disbursements are established by the General Assembly.

Health Spa Regulatory Fund: This fund was established by Section 407.327, RSMo 1994, for the receipt of health spa registration fees. Monies in the fund are to be used solely for the administration of Sections 407.235 to 407.340, RSMo 1994, relating to the regulation of health spas.

Inmate Incarceration Reimbursement Act Revolving Fund: This fund was established by Section 217.841, RSMo Cumulative Supp. 1999. Monies deposited into this fund represent 20 percent of the reimbursements recovered for the cost of care of prisoners in a state correctional facility, and are considered investigative costs. Expenditures are authorized by appropriation and balances remaining in the fund are perpetually maintained for the purpose of the fund

Multi-State Consumer Fraud Accounts: These bank accounts were established by the office in fiscal year 1999 to receive funds related to five multi-state consumer fraud cases. Some of these funds are to be distributed according to instructions from the claim

administrator(s) and other funds are to be used to pay litigation expenses and costs related to certain programs.

General Revenue Fund-State: The office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the office, including those programs and services that have no other funding source. These appropriations may also be used to initially fund or to provide matching funds or support for programs paid wholly or partially from other sources.

Gaming Commission Fund: Appropriations from this fund authorize disbursements for legal services related to the Missouri Gaming Commission.

Natural Resources Protection Fund-Water Pollution Permit Fee Subaccount: Appropriations from this fund authorize disbursements for legal services related to the enforcement of water pollution laws.

Solid Waste Management Special Revenue Fund: Appropriations from this fund authorize disbursements for legal services related to the enforcement of solid waste management laws.

Petroleum Storage Tank Insurance Fund: Appropriations from this fund authorize disbursements for legal services related to the administration of this fund, which provides insurance for the owner or operator of an underground petroleum storage tank.

Motor Vehicle Commission Fund: Appropriations from this fund authorize disbursements for legal services related to the Missouri Motor Vehicle Commission.

Natural Resources Protection Fund-Air Pollution Permit Fee Subaccount: Appropriations from this fund authorize disbursements for legal services related to the enforcement of air pollution laws.

Soil and Water Sales Tax Fund: Appropriations from this fund authorize disbursements for legal services related to soil and water conservation.

Workers' Compensation Fund: Appropriations from this fund authorize expenditures related to the defense of workers' compensation cases.

Workers' Compensation-Second Injury Fund: Appropriations from this fund authorize expenditures related to the defense of second injury cases.

Lottery Enterprise Fund: Appropriations from this fund authorize disbursements for legal services related to the State Lottery Commission.

Hazardous Waste Fund: Appropriations from this fund authorize disbursements for legal services related to hazardous waste management laws.

Safe Drinking Water Fund: Appropriations from this fund authorize disbursements for legal services related to the enforcement of safe drinking water laws.

Hazardous Waste Remedial Fund: Appropriations from this fund authorize disbursements for legal services related to the enforcement of hazardous waste laws.

Mined Land Reclamation Fund: Appropriations from this fund authorize disbursements for legal services related to the enforcement of land reclamation laws.

ADA Compliance Fund: Appropriations from this fund authorize disbursements for legal services related to the Americans with Disabilities laws.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and, beginning January 1, 1996, a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the General Revenue Fund-Federal, Antitrust Revolving Fund, Merchandising Practices Revolving Fund, and Inmate Incarceration Reimbursement Act Revolving Fund for costs related to salaries paid from those funds. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statement at Exhibit C.

2. Transfers to General Revenue Fund-State

These transfer out amounts for the years ended June 30, 1999 and 1998, represent these funds' proportional share of fiscal year 1997, 1996, and 1995 refunds required by Article X, Section 18 of the Missouri Constitution.

3. Cash

- A. The balances of the General Revenue Fund-Federal, Court Costs Fund, Antitrust Revolving Fund, Tort Victims' Compensation Fund, Health Spa Regulatory Fund, and Inmate Incarceration Reimbursement Act Revolving Fund are pooled with other state funds and invested by the state treasurer.
- B. Merchandising Practices Revolving Fund: The Merchandising Practices Revolving Fund cash balances include \$2,437,022, \$2,286,822, \$2,050,751, and \$1,741,512 at June 30, 1999, 1998, 1997, and 1996, respectively, which are pooled and invested by the Missouri State Treasurer. In addition, the office has two bank accounts outside the state treasury with funding provided by the Merchandising Practices Revolving Fund. These accounts are in the custody of the office. The office's deposits (maintained in non-interest checking accounts with carrying amounts equal to the bank balances) of \$1,561, \$1,604, \$92, and \$625 at June 30, 1999, 1998, 1997, and 1996, respectively, were entirely covered by federal depository insurance.
- C. Merchandising Practices Restitution Account: Amounts in the Merchandising Practices Restitution Account represent cash which is in the custody of the office. The office's deposits are composed of the following:

		June 30,							
		1999		1998		1997		1996	
		Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Interest bearing NOW accounts	\$	1,554,001	1,596,578	117,457	129,314	139,389	158,129	383,257	439,762

The office's deposits at June 30, 1999, 1998, 1997, and 1996, were entirely covered by federal depository insurance or by collateral securities held by the custodial bank in the office's name.

- D. Multi-State Consumer Fraud Accounts: Amounts in these accounts represent cash which is in the custody of the office. The office's deposits consisted of interest bearing accounts with the carrying amount equal to the bank balance of \$1,558,363 at June 30, 1999, and were entirely covered by federal depository insurance or by collateral securities held by the custodial bank in the office's name.
4. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

General Revenue Fund - Federal				
Year Ended June 30,				
	1999	1998	1997	1996
DISBURSEMENTS PER EXHIBIT A	\$ 611,954	689,951	828,496	913,420
Employee fringe benefits	(109,054)	(109,627)	(159,218)	(147,026)
Lapse period expenditures:				
1999	201	0	0	0
1998	(4,384)	4,384	0	0
1997	0	(650)	650	0
1996	0	0	(481)	481
EXPENDITURES PER EXHIBIT C	\$ 498,717	584,058	669,447	766,875

Court Costs Fund				
Year Ended June 30,				
	1999	1998	1997	1996
DISBURSEMENTS PER EXHIBIT A	\$ 148,147	159,517	176,015	128,888
Lapse period expenditures:				
1999	8,815	0	0	0
1998	(12,577)	12,577	0	0
1997	0	(17,303)	17,303	0
1996	0	0	(12,776)	12,776
Accounts payable, June 30:				
1999	2,962	0	0	0
1998	(5,779)	5,779	0	0
1997	0	(25)	25	0
1996	0	0	(3,271)	3,271
EXPENDITURES PER EXHIBIT C	\$ 141,568	160,545	177,296	144,935

		Antitrust Revolving Fund			
		Year Ended June 30,			
		1999	1998	1997	1996
DISBURSEMENTS PER EXHIBIT A	\$	368,055	228,245	159,517	150,201
Employee fringe benefits		(33,714)	(27,279)	(25,619)	(26,812)
Lapse period expenditures:					
1999		36,515	0	0	0
1998		(68,510)	68,510	0	0
Accounts payable, June 30:					
1999		888	0	0	0
1998		(2,134)	2,134	0	0
EXPENDITURES PER EXHIBIT C	\$	<u>301,100</u>	<u>271,610</u>	<u>133,898</u>	<u>123,389</u>

		Merchandising Practices Revolving Fund			
		Year Ended June 30,			
		1999	1998	1997	1996
DISBURSEMENTS PER EXHIBIT A	\$	583,788	546,416	554,864	519,541
Employee fringe benefits		(59,459)	(51,778)	(50,776)	(48,326)
Lapse period expenditures:					
1998		(1,827)	1,827	0	0
1997		0	(2,577)	2,577	0
1996		0	0	(26,052)	26,052
1995		0	0	0	(3,049)
Accounts payable, June 30:					
1997		0	(1,733)	1,733	0
Adjustments to reflect bank account activity					
1999		(43)	0	0	0
1998		0	(275)	0	0
1997		0	0	1,130	0
1996		0	0	0	(1,202)
EXPENDITURES PER EXHIBIT C	\$	<u>522,459</u>	<u>491,880</u>	<u>483,476</u>	<u>493,016</u>

		Health Spa Regulatory Fund Year Ended June 30, 1999
DISBURSEMENTS PER EXHIBIT A	\$	0
Lapse period expenditures: 1999		1,725
EXPENDITURES PER EXHIBIT C	\$	1,725
		Inmate Incarceration Reimbursement Act Revolving Fund Year Ended June 30, 1999
DISBURSEMENTS PER EXHIBIT A	\$	35,191
Employee fringe benefits		(5,499)
EXPENDITURES PER EXHIBIT C	\$	29,692

5. Other Collections

The Environmental Protection Division helps ensure Missouri's environmental laws are enforced. The division obtains civil penalties and recovers costs and damages pertaining to related cases. The monies collected are turned over directly to other entities such as the Department of Natural Resources and to various counties for deposit into the school fund. The office collected and turned over approximately \$7,257,000, \$3,835,000, \$2,606,000, and \$3,839,000 in such monies to these entities during the years ended June 30, 1999, 1998, 1997, and 1996, respectively.

The Governmental Affairs Division houses the office's financial services unit. This unit pursues recoveries of monies due the Office of Attorney General and other state agencies/departments, including amounts due on defaults on student loans and economic development loans; delinquent audit and lottery commission fees; penalties owed the Ethics Commission, and collections in bankruptcy court. This unit collected and turned over to other entities amounts totaling in excess of \$1 million during the four years ended June 30, 1999.

The monies noted above which were received and turned over directly to other departments/entities are not included in the financial statements of the office.

Note to the Supplementary Data:

6. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group and are not depreciated.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Current Recommendations

OFFICE OF ATTORNEY GENERAL
SUMMARY OF FINDINGS

1. Professional Services (pages 36-39)

Formal written contracts are rarely prepared for legal and other professional services. Some payments were not in accordance with engagement letters or Office of Attorney General (AGO) policies and procedures. Documentation is not maintained of the reasons for hiring contract attorneys for specific cases, or the method used to select the attorneys. The AGO has not established procedures to track costs per case.

2. Accounts Receivable (pages 39-40)

The duties surrounding the establishment and handling of restitution receivables are not adequately segregated and procedures for monitoring these receivables are not adequate.

3. Personnel Records and Policies (pages 41-42)

The AGO does not require some employees to prepare time sheets, and the timekeeping system is cumbersome and does not provide useful information. A written personnel policy has not been established and written job descriptions have not been created.

4. Plane Flights (pages 42-43)

The AGO does not ensure the costs of commercial flights are compared to the costs of using state planes for out-of-state air travel.

5. Fixed Assets (pages 43-45)

A physical inventory is not performed annually. When a physical inventory is taken, it is performed by the same individual who is also responsible for the recordkeeping of these assets. The adjustments to the inventory records are not reviewed and/or approved by management. Some equipment purchased with federal funds for the Medicaid Fraud Control Unit is being used by employees in other sections.

6. Bank Accounts (pages 45-46)

The AGO is maintaining some state funds in bank accounts outside the state treasury.

OFFICE OF ATTORNEY GENERAL
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S CURRENT RECOMMENDATIONS

We have audited the special-purpose financial statements of the Office of Attorney General as of and for the years ended June 30, 1999, 1998, 1997, and 1996, and have issued our report thereon dated October 1, 1999.

The following Management Advisory Report presents our findings and recommendations arising from our audit of the office's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered as all-inclusive of areas where improvements may be needed.

1. Professional Services

The Office of Attorney General (AGO) has contracted for legal and other professional services which included attorneys for inmate litigation, criminal cases, complex consumer protection/antitrust cases, cases involving constitutionality issues, etc.; and professionals for consulting services, expert witness testimony, court reporting, etc. In addition, the AGO utilizes various services such as court reporting, medical record reviews, rehabilitation evaluations, and private investigations/surveillances to defend the Second Injury Fund (SIF). The invoices for these SIF expenses are approved by the AGO, but are paid by the Department of Labor and Industrial Relations-Division of Workers' Compensation (DWC). Also, additional payments were made to outside counsel from the State Legal Expense Fund through an Office of Administration (OA) appropriation, but based on the approval of the AGO.

According to disbursement records, the AGO paid approximately \$1,365,000 during the four years ended June 30, 1999, from its appropriations for legal services and other professional and technical services. During that same period, the DWC and OA paid over \$1.2 million and \$3.1 million, respectively, for legal and other professional and technical services, based upon approval by the AGO. Our review of these contracted services disclosed the following concerns:

- A. Formal written contracts are rarely prepared to document these service agreements, but instead the AGO generally uses an engagement letter to document such arrangements. However, we noted twenty-two payments totaling over \$199,000 for which the AGO was unable to produce an engagement letter.

If there was an engagement letter, it usually indicated the specific case or type of case involved and the rate of compensation. However, the letters did not always address all pertinent issues, such as the rate of compensation for associates and paralegals, and rates of compensation for other professional and technical services. In addition, the letters did

not always address the types of expenses that would be reimbursed and documentation which needed to be submitted for other professional and technical services.

We noted eleven payments totaling approximately \$494,000, which included charges which were either not addressed in the engagement letters or were not in accordance with the letters. In all eleven instances, the rates billed for associates and paralegals were not included in the engagement letters. In four of these instances, the rates billed for partners were higher than the rates quoted in the letters. In addition, while the AGO has established billing policies and procedures for outside counsel in a billing policies and procedures manual, we noted many instances where supporting documentation was not in accordance with this manual.

Without written agreements, it is difficult to determine whether all charges billed are proper. In addition, written agreements are necessary to ensure all parties are aware of their duties and to clarify all compensation allowed. The AGO should ensure that payments for outside counsel and other professional services are in accordance with the agreements, that the agreements address all pertinent issues, and that adequate supporting documentation is submitted in accordance with AGO policies and procedures.

- B. According to AGO officials, outside legal counsel is hired when there is a conflict of interest for the office or when the case is very complex and requires specialized services. The AGO could not provide us with documentation regarding the reasons for hiring outside legal counsel for particular cases or the method of selecting these attorneys. We requested this information for sixteen cases reviewed. Considering the extent of payments to these outside legal counsel, it appears this information should be documented to support the propriety of the decision-making process.

In addition, no documentation could be produced to support how the lead attorney was selected to represent Missouri in the tobacco litigation. At this time, it appears this lead attorney and those other attorneys working with him on the tobacco litigation will receive a substantial amount of compensation from a separate fund (separate from monies to be distributed to the states) established by the tobacco companies.

- C. The AGO has not established procedures to track the costs per case. During the four years ended June 30, 1999, the office spent over \$57 million in personal service and expense and equipment costs to operate the office. As noted above, additional outside legal costs were paid from the State Legal Expense Fund and were not included in these amounts.

The Consumer Protection Division routinely receives reimbursement for the cost of the investigation and/or prosecution of consumer protection and antitrust cases. According to the chief counsel for this division, these costs are estimated and not supported by detailed documentation. Although many times the actual reimbursement is a negotiated amount in

such cases, it appears the AGO should know the actual costs incurred to arrive at a reasonable settlement. We also noted that in March 1999, the AGO submitted a bill for in-house litigation expenses related to the multi-state tobacco case. According to office records, the case costs of \$1,188,635 were based "upon contemporaneous time records as well as good faith estimates."

A system which charges costs to the various cases would support the appropriate reimbursement of investigation and/or prosecution costs, and assist in determining a reasonable settlement, if the amount is negotiated. By not tracking the costs per case, the office has little assurance that its estimates are a reflection of the true costs. In addition, tracking costs per case could prove useful in monitoring the cost effectiveness of overall office performance and in determining which cases should be litigated and when out of court settlements should be considered.

Similar conditions were also noted in the prior report.

WE AGAIN RECOMMEND the AGO:

- A. Ensure all legal and other professional services are supported by written agreements signed by both parties. The invoices should be reviewed for compliance with the written agreements and office policies.
- B. Document the rationale for hiring outside legal counsel and the method of selecting the attorney for the applicable case.
- C. Develop a system which accumulates costs per case.

AUDITEE'S RESPONSE

- A. *The AGO routinely uses engagement letters when employing outside legal services. These letters set out with specificity the individuals who are authorized to work for the state and their rate of pay. Other terms and conditions of the engagement are set out in detail in the office's "billing policy" handbook, attached and incorporated by reference in each engagement letter. The billing policy addresses the types of expenses that are reimbursable and the documentation necessary to receive reimbursement. Each engagement letter is an offer, which once accepted, is as binding and enforceable as a contract. Therefore, we will continue to use this legally binding method. The AGO has begun using engagement letters when retaining other professional services as well.*

The audit identified a handful of instances in the last three years when the services of outside legal counsel were engaged without a formal engagement letter. We believe that in each case identified by the Auditor the AGO had an ongoing relationship with the attorney and simply relied on a previous engagement letter rather than generating a new letter for each

case. The AGO has instituted new procedures to assure that in every case where outside counsel is employed an engagement letter is on file.

At times the AGO has agreed to modify the terms of an engagement letter or the billing policy. For instance, an initial engagement letter will often authorize only a particular individual to work on a case, but as the case develops work by other attorneys or paralegals may be approved. The AGO will immediately implement a system of documenting in writing any agreed modification to the terms of an engagement letter or the billing policy and will update the billing policy to minimize the need for modifications in the future.

- B. As indicated by the Auditor, the AGO employs outside counsel in cases of conflict of interest or when particular expertise is required. Outside counsel are chosen based on the rate they charge, their willingness to adhere to policies of the AGO and their abilities. The specific rationale behind hiring attorneys in an individual case is work product and is privileged information. When possible, the AGO will use retention letters to indicate whether counsel have been hired due to a conflict or for their expertise.
- C. The AGO will assure that a system is in place to track the costs of cases where reimbursement for costs of investigation and/or prosecution is available. The AGO continues to believe that tracking costs per case in cases where reimbursement is not available would be tremendously burdensome and would provide little or no useful information. It is important to note that unlike private litigants whose motivation for litigation is often financial, the state often litigates to further public policies that cannot easily be quantified monetarily.

2.

Accounts Receivable

The Consumer Protection Division (CPD) represents the state in securities fraud, antitrust matters, and in violations of the state consumer protection laws. These prosecutions often result in imprisonment, and fines for offenders, and restitution for the consumers. During the four years ended June 30, 1999, AGO records indicated approximately \$3 million was received as restitution for other parties. A review of the AGO's handling of these restitutions disclosed the following concerns:

- A. The AGO maintains a bank account for the deposit of restitution assessed by the courts for violations of merchandising practices laws. Restitution payments are received by the assistant attorneys general, the same individuals who set up the payment plans and establish the receivable amounts. The fiscal office is not notified of restitutions due until the first payment is received.

To safeguard against possible loss or misuse of funds, receipt duties should be segregated from the establishment of the receivable. Internal control could be improved by having the

fiscal office informed when the receivable is established. In addition, the fiscal office should receive the money and then notify the applicable assistant attorney general of the amount(s) received.

- B. The AGO's procedures for monitoring restitutions receivable are not adequate. The CPD enters restitution receivable into the office's computer enforcement case file system. The payments received are entered into the enforcement system by the fiscal office when they are transmitted from the CPD. The payment information is maintained in a file separate from the receivable records.

During the prior audit, the chief counsel of the CPD periodically requested a report of the uncollected restitution which was generated by merging the receivable and payment files. However, because of questions concerning the reliability of this report, he ceased requesting this report during the current audit period. Thus, the office could not provide us with a current accounts receivable balance for restitution monies. According to the chief counsel of the CPD, the receivable balance is currently being monitored on a case-by case basis by the assistant attorney general assigned the case.

To ensure all restitution due is collected and that restitution collections and disbursements are recorded to the proper case, adequate account receivable information should be maintained. A control ledger accounting for all amounts owed, payments received, and balances due should be established. The control ledger should be periodically reconciled to the detailed enforcement system file. All receivable balances should be recorded into the enforcement system.

Similar conditions were also noted in the prior report.

WE AGAIN RECOMMEND the AGO:

- A. Establish procedures whereby all monies are initially received by the fiscal office rather than the assistant attorneys general. The fiscal office should then notify the appropriate assistant attorney general of the receipt.
- B. Maintain a restitution control account summarizing accounts receivable and perform periodic reconciliations between the control account and the detailed records.

AUDITEE'S RESPONSE

The AGO is reviewing internal procedures regarding the receipt and establishment of receivables for the Consumer Protection Division. The AGO requires that any checks received are logged by an independent employee as they arrive. While this system adequately safeguards the receipts process, the AGO is evaluating the establishment of the receivables to see if improvements can be made in this area.

3.**Personnel Records and Policies**

During the four years ended June 30, 1999, the AGO expended over \$42 million for employee salaries and wages. Our review of personnel policies and procedures disclosed the following concerns:

- A.1. The AGO does not require some employees (those who are not hourly employees or attorneys) to prepare time sheets to account for all hours worked and leave taken during the month. For these employees, daily attendance records are prepared by the various receptionists, who record which employees are in when they take attendance. The daily attendance records are based on observations of the receptionists at a particular time each day. Employees not present when attendance is taken are marked as taking leave. The employees are responsible for submitting leave slips to the fiscal office, where leave taken is posted to the accumulated leave records. Semiannually, the fiscal office sends copies of the leave records to each employee and requests they verify their accuracy.

Monthly time sheets should be required for these employees to adequately account for all time worked and leave taken. In addition, such time sheets would help ensure the accuracy of the accumulated leave records. As a result of the current situation, it is more likely errors will occur in the accurate maintenance of leave records. We noted a couple of instances where the records incorrectly reflected negative leave balances for the applicable employees and it took several months to correct the accumulated leave records.

2. In addition to the daily attendance records, attorneys fill out a weekly time record which identifies the hours worked each day. These records do not identify the case the attorney worked on or the nature of the work performed. The information from these time records is entered by division secretaries into the office's computerized time system. The computerized time system records are not reviewed or approved by the attorney's supervisor, or reconciled to the attendance or leave records. AGO personnel indicated the computerized system is used to accumulate information about the total hours worked by individual attorneys by the various divisions. This system appears to provide little useful information while expending both employee and computer time.

A system which charges time to the various cases, as well as training, leave, and administrative functions, could prove very valuable in monitoring the cost effectiveness of individual employees as well as overall office performance and costs. In addition, accurate time records are necessary to document work performed and leave taken, and to support payroll expenditures.

- B. A written personnel policy addressing issues such as hours of work, overtime, leave used for family illness, carryover of leave from other state agencies for new employees, etc., has not been established. Also, the office has not created written job descriptions for its employees. To ensure employees are treated equitably, and that they meet minimum

education and experience requirements, written personnel policies and job descriptions should be adopted.

Similar conditions were also noted in the prior report.

WE AGAIN RECOMMEND the AGO:

- A. Require the applicable employees to prepare monthly time sheets that document actual hours worked and leave taken, and submit these to their supervisor and the fiscal office for review and approval. In addition, the AGO should implement a timekeeping system which supports hours worked and work performed, and use this data to monitor performance and costs.
- B. Adopt a written personnel policy and job descriptions.

AUDITEE'S RESPONSE

- A. *The AGO requires employees who are not attorneys and not employed on an hourly basis to document leave taken by preparing leave slips. Those employees also account on leave slips extra hours worked for purposes of compensatory time. In addition, independent third parties are responsible for documenting daily attendance. Leave slips submitted by employees are compared to independently created attendance records to assure accuracy. The Auditor has suggested that these employees maintain monthly time sheets. While monthly time sheets are used by many offices, the Auditor could point to no state personnel policy that requires their use. The AGO believes that its two-pronged approach to attendance documentation provides adequate safeguards and allows us to identify attendance problems more accurately.*

As in recommendation #1, the Auditor again recommends that attorney time be documented by case. We respectfully disagree and refer to our response to recommendation 1(C). The AGO does require attorneys to document total hours worked each day. These daily time records are an important management tool as they allow us to monitor individual and division workloads.

- B. *The AGO makes every effort to inform its employees of personnel policies and of their individual job assignments.*

4.

Plane Flights

The AGO routinely flies to various in-state and sometimes out-of-state locations using the flight services of the Office of Administration (OA), or a local flying service. During the year ended June 30, 1999, three out-of-state flights were taken in OA planes at a cost totaling over \$7,000. We

noted the office does not ensure the cost of commercial flights is compared to the costs of using OA planes for out-of-state air travel. It appears cost savings may have been realized for at least two of these flights had commercial flights been taken rather than using the OA planes.

To ensure the most economical use of state resources, the office should prepare and retain documentation comparing the costs of commercial flights to the costs of using OA planes. This information should be retained with the flight information. If the higher cost alternative is chosen, the circumstances and justification for the decision should be documented.

WE RECOMMEND the AGO ensure a comparison of the costs of commercial flights to the costs of using OA planes for out-of-state flights is documented and retained.

AUDITEE'S RESPONSE

The AGO conducts a cost comparison between commercial flights and the flight services of the Office of Administration. The commercial flights in each of the instances noted would have required an overnight stay for the return trip the following day. Thus, the comparison included personnel time, hotel costs, meals and incidental expenses associated with the overnight stay rather than a same day return utilizing the flight services of the Office of Administration.

5. Fixed Assets

At June 30, 1999, the AGO was responsible for approximately \$4.4 million in general fixed assets. These fixed assets are maintained in AGO offices in Kansas City, Springfield, St. Louis, and Cape Girardeau, plus various locations in Jefferson City. Our review of the office's property records indicated the following areas where improvements are needed:

- A. A physical inventory is not performed annually as required by 15 CSR 40-2.031. A physical inventory was started during the summer of 1999; however, according to AGO personnel, the previous fixed assets inventory was started in 1996 and completed in 1997.

Adequate controls and procedures over general fixed assets are necessary to protect the state's investment in fixed assets. Such controls are especially important when fixed assets are maintained at various locations. Annual physical inventories should be conducted and reconciled to the fixed asset records.

- B. When a physical inventory is taken, the inventory is performed by the fiscal officer, the individual who is also responsible for the record keeping of these assets. To provide internal control and to properly safeguard assets from theft or misuse, the annual physical inventory should be performed by an individual(s) independent of the custodial and record keeping functions.

- C. The adjustments to the inventory records are not reviewed and/or approved by management. The variances or discrepancies which cause adjustments to the inventory record may be the result of a breakdown or weakness in the system, errors in recording information, or irregularities by employees. Management should review adjustments to inventory records to properly safeguard assets.
- D. We noted some computer equipment purchased with federal funds for the Medicaid Fraud Control Unit (MFCU) is being used by AGO employees in other sections. It appears likely that other types of furniture and equipment purchased with these funds is also not being used by MFCU employees. Office records indicate that federal funds were used to purchase furniture and equipment for twenty-three MFCU positions. However, this unit has never been fully staffed, and there have never been more than nineteen employees in this unit.

According to the federal program regulations, equipment purchased with funds pursuant to this program should not be used for any purpose other than investigating and prosecuting Medicaid fraud. Therefore, the office should ensure that only MFCU employees use equipment purchased with these federal funds.

WE RECOMMEND the AGO:

- A. Conduct an annual physical inventory of general fixed assets and reconcile the physical inventory to the fixed asset records.
- B. Ensure an individual independent of the record keeping function performs the physical inventory.
- C. Ensure the adjustments to the fixed asset records are reviewed and approved by management.
- D. Ensure the equipment purchased with federal funds for the MFCU is not used for any purpose other than investigating and prosecuting Medicaid fraud.

AUDITEE'S RESPONSE

The AGO will immediately implement the recommendation to perform a physical inventory on an annual basis. Additionally, the AGO will ensure a separation of duties between persons performing the inventory and employees reconciling the physical inventory records including appropriate management level personnel to approve adjustments, if any, to the records.

Furniture and equipment purchased with federal funds provided to the Medicaid Fraud Control Unit have been assigned to office personnel consistent with federal regulations (see 45 C.F.R. Section 92.32) or, in some limited instances, to prevent the assets from setting idle.

AUDITOR'S COMMENT

- 5.D. The federal regulation the AGO refers to in its response allows equipment to be replaced which is no longer needed for a program. However, it appears at least some of the equipment items in question were never used by employees of the MFCU, nor were they needed by that unit based on its actual staffing levels. Considering the restrictions placed on the applicable federal funds, the AGO should ensure any future equipment purchases from these funds are made at a level consistent with the actual needs of the MFCU and that the items are used only by personnel of that unit.

6. Bank Accounts

The AGO has established several checking accounts outside the state treasury. The Merchandising Practices Restitution Account was established several years ago to receive any restitution awarded by the courts for the violation of state merchandising practices laws. Payments from this account provide restitution to parties affected by the violations. During fiscal year 1999, the office established five additional checking accounts outside the state treasury to receive funds related to multi-state consumer fraud cases. Our review of these bank accounts disclosed the following concerns:

- A. Some of the monies deposited into the Multi-State Consumer Fraud Accounts appear to be state funds. For example, during fiscal year 1999, the AGO received \$54,000 to create an educational program related to consumer rights and responsibilities regarding bankruptcy, and \$158,333 for smoking cessation programs. As of June 30, 1999, no disbursements had been made from these two accounts.

It appears the AGO does not have statutory authority to maintain state funds outside the state treasury. Article IV, Section 15, of the Missouri Constitution and Section 30.170, RSMo 1994, require the state treasurer to be the custodian of all state funds and receive and disburse such funds.

As a result, any state monies being maintained by the AGO should be turned over to the State Treasurer's office (STO). If the AGO believes it is necessary to maintain these monies outside the state treasury, legislative authority should be sought.

- B. The AGO does not have a formal written depository contract with the bank where the accounts are maintained. A depository contract should be prepared to formally establish this banking agreement and to clarify the services to be received. The contract provisions might include, but not be limited to, costs of the checking accounts, types of accounts available, interest to be paid, and the pledging of sufficient and acceptable collateral securities.

Depository agreements help ensure banking services to be provided are adequately documented and also ensure any monies over which the AGO is responsible are adequately protected.

WE RECOMMEND the AGO:

- A. Review the monies currently being held by the AGO outside the state treasury and take action to turn any state monies over to the STO, unless legislative authority is obtained allowing these monies to be maintained outside the state treasury.
- B. Enter into a written depository agreement with the bank where the office's accounts are maintained.

AUDITEE'S RESPONSE

- A. *As the Auditor points out, funds that are held for reimbursement to particular individuals or groups, such as those held in the Merchandising Practices Restitution Account, are the property of those individuals and are not state funds. Turning those funds over to the state treasury before attempting to refund them to individual consumers would be an unconstitutional government taking of private money.*

The Auditor questions whether two deposits were state funds or private funds. The first deposit questioned by the Auditor has been determined to be money directed to a specific group of recipients pursuant to a court order in a multi-state case. While we understand the confusion, the AGO has determined that those funds must be used in accordance with the court order directing them to a specific group of individuals.

The second deposit was being held in escrow by the AGO until a determination could be made as to whether these were individual funds or money belonging to the state. As the Auditor points out, no disbursements have been made from that fund. The AGO has determined that money to be state funds and will remit the entire amount to the state treasury.

- B. *The AGO will implement the recommendation to establish a formal written depository contract with banking institutions in the event an account must be established outside of the state treasury. Whenever possible the AGO will enter into depository contracts for existing accounts.*

This report is intended for the information of the management of the Office of Attorney General and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on State Auditor's Prior Recommendations

OFFICE OF ATTORNEY GENERAL
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Office of Attorney General on recommendations made in the Management Advisory Report (MAR) of our report issued for the three years ended June 30, 1995.

The prior recommendations which have not been implemented, but are considered significant, have been repeated in the current MAR. Although the remaining unimplemented recommendations have not been repeated, the office should consider implementing these recommendations.

1. Contracted Professional Services

- A. Formal written contracts were rarely used for contracted legal and other professional services. If there was an agreement it usually consisted of a letter, and the letters did not always address all pertinent issues. In addition, some payments were for charges which were not in accordance with the letters and supporting documentation in some instances was not in accordance the AGO's billing policies and procedures manual.
- B. The AGO did not maintain documentation supporting why contract attorneys were hired for particular cases or the method of selecting such attorneys.
- C. The AGO did not have procedures to track the costs per case.

Recommendation:

The AGO:

- A. Ensure all legal and professional services are supported by written agreements signed by both parties. In addition, invoices should be reviewed for compliance with the written agreements and office policies. Payments should also be in accordance with the agreements and office policies.
- B. Document the rationale for hiring contract attorneys and the method of selecting the attorney for the applicable case.
- C. Develop a system which accumulates costs per case.

Status:

Not implemented. See MAR No. 1.

2. Case and Cost Management

- A. Both the AGO and the Department of Labor and Industrial Relations-Division of Workers' Compensation (DWC) maintained computer databases for Second Injury Fund (SIF) cases. These two databases were not integrated, and data was duplicated between the two systems. In addition, the AGO system did not provide reliable information about when a case was closed. In December 1994, the AGO requested on-line access to DWC claims information; however, the DWC had not taken action concerning this request.
- B. There was little evidence the AGO utilized the SIF databases to monitor the related case activity.
- C. State law did not allow the AGO to utilize a medical doctor of its choice to examine claimants.
- D.1. The AGO utilized various court-related services to defend the SIF. The AGO did not have written agreements identifying the service to be provided and the compensation. In addition, the criteria for the selection of vendors was not documented.
- 2. Some invoices did not contain adequate detail.

Recommendation:

The AGO:

- A. Continue to work to consolidate its SIF database with the DWC.
- B. Develop performance measures for monitoring the SIF. These measures could include caseload by attorney; trends in payouts and filings with projections for the future; and tracking open cases versus actionable cases to determine backload status.
- C. Promote legislation to allow the office to have medical doctors of its choice examine claimants.
- D. Ensure services are supported by written agreements, signed by both parties. In addition, invoices should be reviewed for compliance with the written agreement or contract terms. The criteria for the vendor selection should be documented.

Status:

- A. Not implemented. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Not implemented. It appears performance measures as recommended in the prior audit have not been established; however, the AGO is working on improving its database to

include information such as depositions and reports by doctors and other expert witnesses. The office is also working with DWC to track activity on a monthly basis. Although not repeated in the current MAR, our recommendation remains as stated above.

- C. Not implemented. The AGO has not been successful in persuading the General Assembly to pass legislation allowing it to have medical doctors of its choice examine claimants. Although not repeated in the current MAR, our recommendation remains as stated above.
- D. Not implemented. See MAR No. 1.

3. Personnel Records and Policies

- A. The AGO did not require salaried employees to maintain records of actual hours worked. While attorneys prepared time sheets identifying work performed in predetermined increments, these records did not indicate the case name(s) and/or case number(s) worked on.
- B. A written personnel policy was not maintained. In addition, the office did not have written job descriptions for its employees.
- C. Some employees were allowed to accumulate annual leave in excess of the established limit.

Recommendation:

The AGO:

- A. Require all employees to maintain time sheets of actual hours worked and leave taken, and submit them to their supervisor and the fiscal office for review and approval. The AGO should implement a timekeeping system that supports hours worked and work performed, and use this data to monitor performance.
- B. Adopt a written personnel policy and job descriptions.
- C. Adhere to leave policies applied to other state employees.

Status:

A&B. Not implemented. See MAR No. 3.

- C. During the current audit, we noted no accumulated annual leave balances above the established limit.

4. Accounting Controls and Procedures

- A. Restitution payments assessed by the courts for violations of merchandising practices laws were received by the assistant attorneys general who established the payment plans and established the receivable amounts. The fiscal office was not notified of restitutions due until the first payment was received.
- B. The AGO's procedures for monitoring restitution receivable were inadequate.
- C. Some receipts are not deposited on a timely basis.

Recommendation:

The AGO:

- A. Establish procedures whereby all monies are initially received by the fiscal office rather than assistant attorneys general. The fiscal office should then notify the appropriate assistant attorney general of the receipt.
- B. Maintain a restitution control account summarizing amounts receivable and perform periodic reconciliations between the control account and the detail records.
- C. Make deposits daily or when receipts on hand exceed \$100.

Status:

A&B. Not implemented. See MAR No. 2.

C. Implemented.

5. Expenditure Policies and Procedures

The AGO did not always ensure supporting documentation related to expense and equipment charges was adequate, properly authorized, and reviewed for reasonableness and propriety. In addition, expense claims did not always include documentation required by the Office of Administration (OA) travel regulations.

Recommendation:

The AGO ensure adequate supporting documentation is obtained and is in compliance with OA travel regulations, if applicable. All disbursements should be authorized by an appropriate party and reviewed for reasonableness and propriety.

Status:

Partially implemented. We noted improvement in the level of supporting documentation for disbursements; however, we still noted some instances where supporting documentation was not adequate. Although not repeated in the current MAR, our recommendation remains as stated above.

6. Vehicle Usage

- A. It appears some pool vehicles were not fully utilized. The AGO had not conducted a usage study to determine the number of vehicles needed, nor were procedures adequate to ensure state-owned vehicles were used instead of reimbursing employees for use of personal vehicles.
- B. Some vehicle usage logs were missing and many of the logs failed to indicate the purpose of the trip.

Recommendation:

The AGO:

- A. Perform a usage study to determine the optimum number of vehicles for the various offices. In addition, the AGO should establish a policy requiring the use of state-owned vehicles whenever possible.
- B. Ensure all appropriate information is recorded on the usage logs. The AGO should periodically review the usage log files to ensure vehicles are used only for official state business.

Status:

- A. Not implemented. A usage study was not performed as recommended and the number of state-owned vehicle under the control of the AGO was not reduced compared to the prior audit. However, we noted improvement in the utilization of vehicles. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Partially implemented. We saw some improvement in the retention of the vehicle usage logs and the recording of usage information; however, the trip mileage was not always recorded. Although not repeated in the current MAR, our recommendation remains as stated above.

7. Tort Victims' Compensation Fund

Receipts for the Tort Victims' Compensation Fund from 1988 through 1995 were only \$30,576 and it was questionable whether any significant amounts would be received. In addition, there was no statutory mechanism for disbursing the monies in this fund.

Recommendation:

The AGO evaluate the potential for significant collections of punitive damages. If significant collections appear unlikely, the AGO should support legislation to abolish the fund.

Status:

The Tort Victims' Compensation Fund was not abolished; however, significant collections were received and deposited into this fund in fiscal years 1999 and 1998. There is still no mechanism for disbursing funds. Although not repeated in the current MAR, the AGO should continue to support legislation to either establish a mechanism for disbursing the monies in this fund or to abolish the fund.

8. Court Costs Fund

State law established this fund as a revolving fund, indicating the legislature's intent that the fund be self-sustaining. However, the majority of expenditures from the Court Costs Fund did not meet the legislative restrictions on the use of the fund and the fund has relied primarily on annual transfers from the state's General Revenue Fund for revenues.

Recommendation:

The AGO seek legislation to abolish this fund and pay any court costs from a General Revenue Fund appropriation.

Status:

Not implemented. No legislative change has been made to abolish this fund and we again noted expenditures which do not appear to meet the legislative restrictions of this fund. The AGO limited such disbursements to those for court reporting services. Although not repeated in the current MAR, our recommendation remains as stated above.

9. Health Spa Registration

The AGO did not have procedures to ensure health spas were registered and bonded as required by state law.

Recommendation:

The AGO develop procedures to ensure health spas are registered and bonded as required by state law.

Status:

Not implemented. It appears no significant procedural changes were made related to the AGO's effort to monitor this area and it appears some problems may still exist. Although not repeated in the current MAR, our recommendation remains as stated above.

STATISTICAL SECTION

History, Organization, and
Statistical Information

OFFICE OF ATTORNEY GENERAL HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Office of Attorney General was created in 1806, when Missouri was still a territory. The Missouri Constitution of 1820 provided for an appointed attorney general. It remained an appointed position until 1865, when a new constitution provided for an attorney general elected by the people.

The Attorney General's office is located in Jefferson City. There are branch offices in Kansas City, St. Louis, Springfield, and Cape Girardeau.

The office is organized into seven divisions: Litigation, Criminal Appeals, Consumer Protection, Governmental Affairs, Labor, Environmental Protection, and Public Safety. Each division is headed by a chief counsel who is responsible for the operations of the division.

Litigation Division: This division is responsible for representing all state agencies, officers and employees in civil litigation matters in state and federal courts. Cases include damage claims that implicate the Legal Expense Fund, construction and contract cases, civil rights cases, malpractice claims, class actions, personnel matters, and constitutional law issues. The attorneys in this division also advise the other divisions in matters involving litigation.

Criminal Appeals Division: This division represents the state in felony criminal cases appealed to the Missouri Supreme Court or the Missouri Court of Appeals, or reviewed by the U.S. Supreme Court.

Consumer Protection Division: This division handles fraud investigations and litigation. Attorneys in this division represent Missouri consumers as a group in cases of consumer fraud, securities fraud, and antitrust matters. Also, these attorneys are active in discovering businesses that commit merchandising practices fraud in connection with the sale and advertising of products or services. This division includes an investigative staff that assists attorneys in investigations involving violations of the state's Merchandising Practices Act.

Governmental Affairs Division: This division represents state elected officials, state departments and agencies in administrative hearings and state and federal court cases. Clients include the governor, lieutenant governor, secretary of state, state auditor, state treasurer, Office of Administration, and various state departments. Attorneys also represent licensing boards, such as Healing Arts and Accountancy, and state regulatory agencies, such as the Lottery Commission. In addition, the division provides day-to-day advice to state clients and represents the public in regulatory actions before the Public Service Commission, and handles civil actions to force compliance with the terms of charitable trusts and disciplinary actions against licensed professionals. The division also includes the financial services unit, which represents state agencies in collections and bankruptcies.

Labor Division: This division provides general counsel and litigation services for the Missouri Department of Labor and Industrial Relations and its officers and agencies. The division also represents the state in prevailing wage disputes, crime victims' claims, and workers' compensation cases of state employees,

including claims involving the Second Injury Fund.

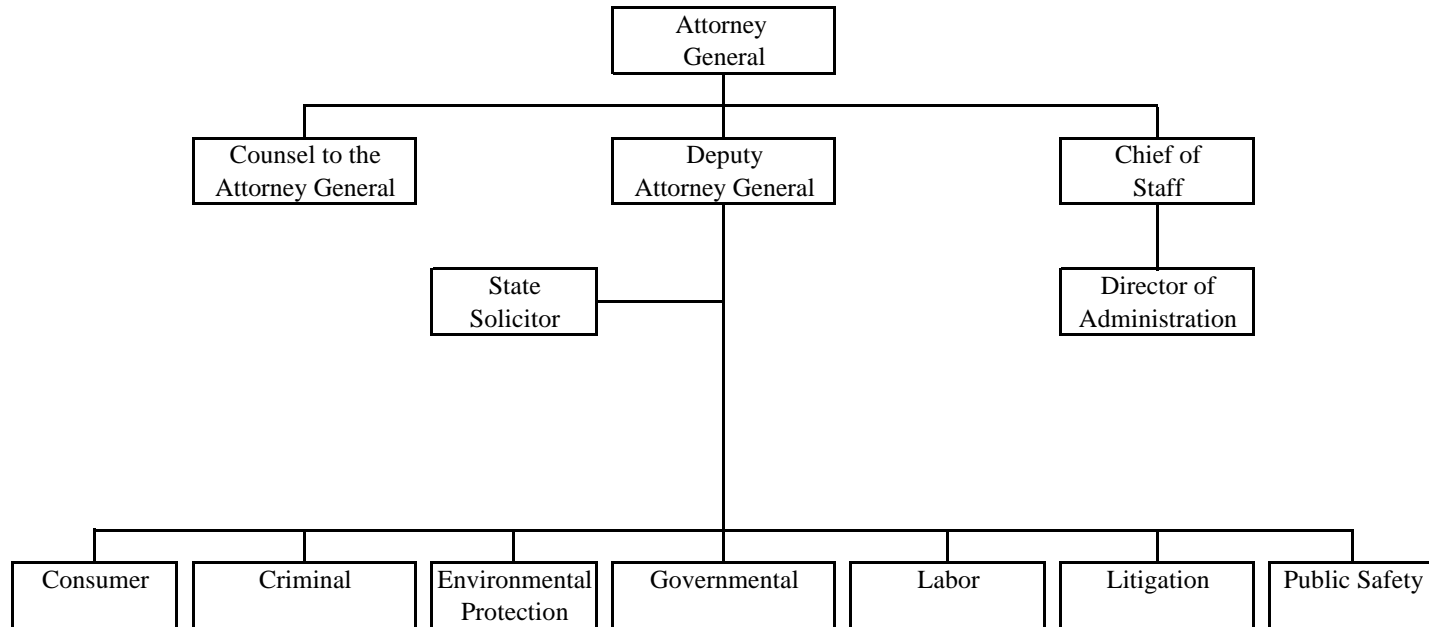
Environmental Protection Division: This division represents the Department of Natural Resources (DNR), including its constituent boards and commissions that regulate the use of Missouri's air, land and waters. Enforcement litigation is filed primarily in state courts to seek preliminary and permanent injunctive relief to assure compliance with state environment laws. The division also pursues civil penalties and recovers DNR response costs and natural resource damages.

Public Safety Division: The Public Safety Division handles criminal prosecutions at the trial level. The Special Prosecution Unit assists local prosecuting attorneys in serious or difficult trials, including homicide cases and grand jury proceedings. The attorneys work closely with local prosecutors to help keep them informed of developments in criminal law, and handle extraditions and detainer actions. The Meth Prosecution Unit specializes in handling criminal cases involving the manufacture, sale or possession of methamphetamine. The Workers' Compensation Fraud Unit prosecutes fraud or misconduct involving workers' compensation, and the Medicaid Fraud Control Unit prosecutes cases involving fraud of the state Medicaid program by health professionals, or abuse or neglect of Medicaid recipients by caregivers. The Public Corruption Unit investigates allegations of misconduct by public officials. In addition, attorneys in the division also enforce the new sexual violent predator law and serve as legal counsel for the Department of Public Safety, Highway Patrol, Water Patrol, and other state law enforcement agencies, and represent those agencies in all civil litigation in which they are a party.

On January 11, 1993, Jeremiah W. (Jay) Nixon was inaugurated as the state's fortieth Attorney General. He was reelected in November 1996, and his present term will expire in January 2001.

At June 30, 1999, the Office of Attorney General employed approximately 300 full-time and 9 part-time employees. An organization chart follows:

OFFICE OF ATTORNEY GENERAL
ORGANIZATION CHART
JUNE 30, 1999



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